

UNIVERSITI SAINS MALAYSIA

SEMESTER EXAMINATION

APRIL 1993

MASTER OF BUSINESS ADMINISTRATION

AGW 518

FINANCIAL MANAGEMENT

TIME 3 HOURS

Answer Question No ONE and select FOUR other questions.
All questions carry equal marks.

1. Balance Sheet and Income Statement Information for 1992 follow for Pepsee Soda Company. Mr. Scrooge, Manager of the Public Bank is considering the company's short term loan application. He must decide on the basis of ratios calculated from information provided by the company and the industry averages. If you were Mr. Scrooge, would you approve the loan? Explain.

ASSETS	\$
Cash	32 000
Accounts Receivables	240 000
Inventory	480 000
Net Fixed Assets	1 536 000

	2 288 000
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LIABILITIES AND EQUITY

Accounts Payable	368 000
Accrued Liabilities	320 000
Short Term Bank overdraft	160 000
Long Term Debt	480 000
Equity Shares	160 000
Retained Earnings	800 000

	2 288 000
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INCOME DATA

Sales	6 400 000
Cost of goods sold	5 120 000
Earnings after taxes	480 000

4.(a) Discuss the usefulness and limitations of Capital Asset Pricing Model in the determination of the appropriate discount rate for use in appraising investment projects in practice.

(b) Describe both systematic and unsystematic risk and indicate the importance of each type of risk to -

- (i) Investors
- (ii) Corporate Financial Management

5 (a) What are the main advantages and disadvantages to a company of raising finance by issuing -

- (i) Ordinary Shares
- (ii) Cumulative Preference Shares
- (iii) Convertible Debentures

(b) Lotus Plc wishes to raise \$ 10 million in external finance by issuing either ordinary shares or 14% preference shares or a 12% Convertible Debentures.

The current financial details of Lotus Plc are summarised below.

(Figures in \$000)

SUMMARISED PROFIT AND LOSS ACCOUNT

	\$
Turnover	45,320

Operating Profit	11,170
Interest	2,280

Profit before Tax	8,890
Tax	3,112

Earnings available to ordinary shareholders	5,778
Dividend	3,467

Retained Earnings	2,311
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APPENDIX I

FINANCIAL MANAGEMENT

	11%	12%	13%	14%	15%	16%	17%	18%	19%	20%	
1	0.901	0.893	0.885	0.877	0.870	0.862	0.855	0.847	0.840	0.833	1
2	0.812	0.797	0.783	0.769	0.756	0.743	0.731	0.718	0.706	0.694	2
3	0.731	0.712	0.693	0.675	0.658	0.641	0.624	0.609	0.593	0.579	3
4	0.659	0.636	0.613	0.592	0.572	0.552	0.534	0.516	0.499	0.482	4
5	0.593	0.567	0.543	0.519	0.497	0.476	0.456	0.437	0.419	0.402	5
6	0.535	0.507	0.480	0.456	0.432	0.410	0.390	0.370	0.352	0.335	6
7	0.482	0.452	0.425	0.400	0.376	0.354	0.333	0.314	0.296	0.279	7
8	0.434	0.404	0.376	0.351	0.327	0.305	0.285	0.266	0.249	0.233	8
9	0.391	0.361	0.333	0.308	0.284	0.263	0.243	0.225	0.209	0.194	9
10	0.352	0.322	0.295	0.270	0.247	0.227	0.208	0.191	0.176	0.162	10
11	0.317	0.287	0.261	0.237	0.215	0.195	0.178	0.162	0.148	0.135	11
12	0.286	0.257	0.231	0.208	0.187	0.168	0.152	0.137	0.124	0.112	12
13	0.258	0.229	0.204	0.182	0.163	0.145	0.130	0.116	0.104	0.093	13
14	0.232	0.205	0.181	0.160	0.141	0.125	0.111	0.099	0.088	0.078	14
15	0.209	0.183	0.160	0.140	0.123	0.108	0.095	0.084	0.074	0.065	15